

Mr. Chairman and members of the committee, my name is Patricia Parr-Armelagos. I work for State Farm insurance with responsibility for their Special Investigation operation in Michigan for approximately 24 years. I'm here to support a Michigan Automobile Insurance Fraud Authority included in House Bill 4612.

There is a compelling need for an Insurance Fraud Authority in Michigan. The Fraud Authority will help us identify fraud on a state-wide basis and provide resources to prosecute the perpetrators. Michigan is the only No-Fault state that does not have a statewide coordinated system to help combat insurance fraud; however, given the scope and impact of automobile insurance fraud in Michigan, it may be the state that needs one most. Findings from a 2012 Insurance Research Council study of no-fault auto injury insurance claims showed that average claimed losses for medical expenses, lost wages, and other expenses related to injuries from auto accidents in Michigan grew 192 percent, or 13 percent per year, on average, between 2002 and 2011.

Michigan requires automobile insurers to provide the most generous No-Fault benefits in the country: unlimited benefits of unlimited duration. This system, therefore, presents a truly unique opportunity for those who want to profit through insurance fraud. We have created a No-Fault system that is ripe for abuse, and the profiteers have come. While it would be inappropriate for me to discuss individual cases, I do want to provide an overview of current schemes being perpetrated on the auto insurance industry.

Insurance fraud exists in many forms and in many levels of complexity. The simplest form involves individuals staging automobile accidents with the intent to profit from insurance benefits. Profits are generated by claiming property damage, medical benefits and disabilities from these fictitious accidents.

However, while these individual staged accidents may result in substantial payments to the individual, the real profits are being made by organized fraud schemes promoted through unscrupulous medical and service providers.

These organized schemes often begin with solicitation, which has become a big business in Michigan. Within a few hours to a few days of a verified accident, unwitting individuals are being solicited through billboards, television and radio advertisements that provide "1-800" numbers, "runners" who show up unannounced at peoples' homes, and letters from random lawyers, to sign up for representation and to begin treating with clinics. Companies are created solely to purchase thousands of police reports per month to aggressively solicit individuals, even when the individuals indicate they are not injured. Many times these solicitors misrepresent themselves as being from the insurance company and often provide legal guidance concerning the No-Fault statute.

In addition to these solicitation companies, it is reported that body shops, tow companies and emergency response personnel are receiving referral fees of up to \$1500 for referring accident victims to participating medical providers.

Many times, in order to ensure the individual's participation, the solicitors arrange for non-medical transportation companies to take patients to the medical clinic for treatment, an expense covered under the No-Fault statute. We have seen bills with a pick up fee of \$295.00 and a per mile charge of \$6.50. These transportation companies may transport the patient up to 100 miles to a participating facility, despite the fact that numerous clinics offer the same services closer to the patient's home. In addition these companies transport multiple parties at the same time, billing separately for each individual patient.

Many of the involved clinics are multi-disciplinary clinics. The clinic physician evaluates the patients, supports chiropractic and/or physical therapy regimens, prescribes pain medication, and provides disability certification for the patient. Often, chiropractic and physical therapy occur on the same day, generating billings for daily treatment lasting several hours; however, the patients report being at the clinic for as little as 15 minutes per visit. Treatment will continue for a year or more with no noted improvement in the patient's condition.

If the individuals remain compliant with the treatment protocol, they are referred for numerous extensive, expensive, and frequently unnecessary diagnostic tests, which are conducted in-house or at a facility directly owned or operated by the clinic. One example of this testing is MRIs, which are being billed in excess of \$5,200 per MRI, with multiple MRIs ordered for each patient. By comparison, the average amount billed by hospitals for the same MRIs is less than \$2,000.

The diagnostic tests are frequently misinterpreted to magnify the severity of the patient's condition, thus justifying additional treatment within the clinic system. There has been a significant increase in pain management procedures and surgeries performed at surgery centers affiliated with these clinics.

A form of pain management treatment is spinal injections, which often are being performed improperly, purportedly resulting in harm to the patient, up to and including death. These injections are frequently performed at non-hospital surgery centers under anesthesia, when neither anesthesia nor an operating room is medically necessary. Injections conducted in a physician's office costs approximately \$500 per procedure; in comparison, the use of a surgery center can inflate the cost to over \$7,000. Treatment of this nature is often done to build up a claim against an at fault party in addition to collecting Personal Injury Protection benefits, which covers their medical, wage loss, attendant care, household services and transportation.

Patients who are lured into these clinic systems often are diagnosed and treated for injuries that they do not really have. Conversely, in their rush to diagnose and treat these fictitious injuries, these clinics do not make any effort to diagnose and treat the patients appropriately for injuries that they actually may have sustained in the automobile accident.

The insurance industry is seeing an increase in the number of clinics operating under this model. A multi-disciplinary clinic can generate in excess of 900 claims for a single insurance carrier, with medical billings exceeding \$25 million.

The financial impact associated with automobile insurance fraud is extreme and wide spread. The National Insurance Crime Bureau (NICB) has reported a 200% increase in the submission of questionable claims in Michigan from 2009 through 2011. More specifically, Personal Injury Protection related questionable claims tripled over the same period. Additionally, NICB reports Michigan ranked third in the nation in "Organized Criminal Activity" which they define as any specific group made up of entities and/or individuals who systematically and repeatedly conduct pre-planned activities for the purpose of generating fraudulent insurance schemes.

While many insurers have dedicated Special Investigations Units devoted to fraud investigations, their efforts only serve to deter the fraud being submitted to their own company, thus pushing the fraudulent medical providers to other insurers who may have fewer resources to recognize and combat fraud. In addition, the Court system, which is funded solely through taxpayer dollars, is heavily burdened with litigation resulting from claims being driven by these fraudulent schemes.

The benefits of an Automobile Insurance Fraud Authority would be substantial. First, as part of the proposed Fraud Authority legislation, insurance carriers will be required to report fraud data to the Authority. This would provide a means to quantify insurance fraud in Michigan and the impact of the Fraud Authority on that activity.

Second, Law Enforcement is doing what it can to investigate and prosecute automobile insurance fraud, but their budgets and resources are stretched extremely thin, and they are forced to address many priorities other than automobile insurance fraud. The establishment of a Fraud Authority in Michigan would provide law enforcement agencies with funds that could specifically support investigations and prosecutions of automobile insurance fraud.

Third, it would provide a process by which new funds could be provided to law enforcement agencies for the specific purpose of investigating and prosecuting automobile insurance fraud. While insurers are dedicating substantial resources to combatting automobile insurance fraud, insurers have no ability to criminally prosecute the perpetrators. Criminal investigation and prosecution is an important compliment to the efforts of insurers to deter fraud, and is necessary to appropriately punish those engaged in these activities.

Thank you for your time and consideration.